



Remarks For

The Hon. Steven C. Preston
Administrator
U.S. Small Business Administration

Delivered At The

NATIONAL SMALL BUSINESS ASSOCIATION

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WELCOME

It's great to speak with people who not only care deeply about small business issues – but also work hard to do something about it.

Clearly you all are effective because you have been around 70 years. Congratulations! My best wishes to Todd and the entire staff and membership of the National Small Business Association on reaching their 70th.

WHAT WE DO

I've been at SBA for seven months now, after 24 years in business. When I first heard about the SBA opportunity, I did what most Americans do today – I Googled the agency. As you can probably guess, the recent news stories that popped up on my screen weren't all that rosy. The agency provides low interest, long-term disaster loans to homeowners and small businesses, and, like many other levels of government — local, state, and federal — was overwhelmed by the 2005 hurricanes.

The agency received more than 420,000 loan applications and approved \$11 billion, almost three times the dollars of the next largest disaster in agency history. This demand surge left SBA struggling to meet the needs of thousands of disaster victims in a timely fashion.

I came to the agency almost 11 months after Katrina. While SBA had made progress addressing the disaster's challenges, 120,000 disaster victims were still somewhere in our process, and they were desperate to get their lives back. If that doesn't motivate you, just spend some time in the Gulf seeing the devastation, looking at people's faces, and listening to their stories – it's not hard

to get a sense of mission. I also knew our employees needed to win back the battle on this issue, and that if we could show traction, it would be a model for wider agency reform.

Digging into the agency's operations last summer, we found a multitude of issues leading to high error rates, steep backlogs, and decision-making bottlenecks. Armed with this information, we reengineered our disaster loan processes, investing thousands of man hours on a new system:

- * We needed a more consistent dialog with our customers - each borrower now has a case manager to establish accountability, eliminate mistakes, and provide a more responsive experience;
- * We moved 1,300 staff and revamped their work flow, from a production line with inadequate communication to 15-person integrated teams where each function is represented, with authority to manage for results;
- * We contacted over 90,000 borrowers in the Gulf to introduce them to the new process and began recording their issues, to create a database of borrower challenges.

The results we obtained through these operational reforms have been truly outstanding:

- * Most of our borrowers were stuck in a backlog attempting to modify their loan requests. SBA reduced backlogs by over 90 percent, and the age of that backlog from 2 1/2 months to under eight days;
- * Of 160,000 applicants with approved loans from the 2005 Gulf hurricanes, 98 percent have now either received all or some of their loan money, or have chosen not to proceed with their loans, generally because they secured funds elsewhere;
- * Of the \$7 billion in approved loans requested by borrowers, we have now put \$5 billion in SBA disaster assistance funds to work rebuilding businesses and homes in the Gulf. Approximately \$2 billion in additional commitments are available to be disbursed;
- * Of the 23,000 borrowers remaining in the process, the vast majority have begun receiving disbursements. Many are experiencing outside challenges including issues with insurance, utilities, and obtaining documents which delay their drawing down funds.

Does SBA's disaster-assistance program still have problems? Of course. We still have dissatisfied customers and are working hard to resolve their issues. However, the feedback SBA has gotten since the fall from legislators, local leaders, our employees, and most importantly, disaster survivors, has been extremely encouraging.

Looking to the future, SBA is completing the reengineering process for disaster loans, and improving automation. We are finalizing detailed surge plans, so there will be a well-documented playbook in place specific to location, size, and disaster type. And, SBA is exploring opportunities for private-sector partnership in areas where it can provide more effective disaster support. We look forward to working with Congress on all such measures.

Obviously there is much more to the agency than disaster loans.

SBA was there to help many of our best known corporate icons get their starts. Names like Intel, America Online, Outback Steakhouse, Apple Computer, Amgen, Ben & Jerry's, Callaway Golf, Staples, Under Armour, Nike, and Federal Express.

Today, the Small Business Administration lends or guarantees more than \$78 billion in loans and investments. It helps small business procure a fair share of government contracts, a record \$80

billion in 2005. Last year, SBA and its technical assistance partners counseled nearly 1.5 million entrepreneurs and its website received 26 million hits. Through its Office of Advocacy, SBA helps protect small business from harmful new government regulations, and through its National Ombudsman it helps small business deal with unfair application of existing regulation. We are a small agency with a very big reach.

Admittedly, I came at this role with a bias toward operational solutions because of my business background. But it appears to me that when there is a problem in government, we often try to address it with a new policy, a new law, or a call for burdensome oversight, when the solution may be fixing a process – that is, an operational solution. That is certainly what we saw with our disaster program. The President recognized the need for greater operational competence throughout the federal government very early when he rolled out the President's Management Agenda.

Since 2001, SBA has made tremendous progress in becoming more efficient. Salaries and expenses are down 31 percent while at the same time our core lending, contracting, and counseling programs have grown dramatically. It's an impressive story of improving stewardship of taxpayer dollars while continuing to expand critical services.

While SBA will continue to improve efficiency going forward, I would say we are shifting to a heavier focus on effectiveness to ensure that we maximize the impact of our programs.

In our best known programs, we guarantee bank loans to small businesses and provide capital to equity funds that invest in small business. These programs enable banks and equity investors to stretch farther in providing capital to small businesses that may not have access to it otherwise. Although the government funds the agency's operational costs, these programs are otherwise self-funding.

Since 2001, SBA's total credit portfolio has grown to a total of \$78 billion, up 56 percent since 2001 and the number of loans we back has doubled. Importantly, more than 32 percent of all SBA-approved loans last year went to minority borrowers. In fact, the number of loans approved for African Americans, Hispanics, and Asian Americans all rose to record levels. And as we dig into our numbers deeper, we see opportunities to do more.

SBA needs a better understanding of the markets it can impact most and to design products to meet those markets' needs. Because banks are our distribution network, we need an operational process that makes banks want to market our products. It is no surprise to me to find that SBA's loan growth is heavily driven by the products that are easiest to use. We live in a world of ready access to information and quick decisions: we can't expect banks or customers to adopt a Byzantine process, even if the product is good.

So, we are focusing hard on both product design and process simplification; understanding what motivates engagement is critical.

We actually have a somewhat counterintuitive example of how to motivate engagement with SBA products. Since 2005, the agency has saved approximately \$100 million a year by eliminating taxpayer subsidies for our primary loan programs. As a result, we don't need an appropriation to fund the program, which means we won't run out of money during the year as the program grows. This idea, whose inception is bipartisan – it was first proposed under President Clinton – is far more efficient for taxpayers and reliable for borrowers.

Why? Because our bankers can market the product as aggressively as they want and don't worry about the program being shut down late in the year. So, they are more committed to it. A higher fee is not nearly as big an issue as the program's reliability. We see the same issue in programs where our guarantee is lower but automation is greater: banks adopt them due to operational ease.

Another SBA core mission is to help small businesses get federal contracts. In 2005, the last year for which data is available, small businesses secured almost \$80 billion in prime contracts, from agencies and departments across the federal government. Of that, \$21 billion went to small, disadvantaged businesses.

Part of our role is to work with federal agencies to give small business a fair hearing and achieve federally mandated targets, not only for all small business overall, but for other preference groups within that community, like 8(a) firms, SDBs, Service Disabled Veterans, HUBZone, and Women. To measure government's progress, the General Services Administration collects data on these contracts, and there are rules about how that data is reported and tabulated.

Important questions have been raised about the accuracy of the small business contract data, and about the large corporate names that have shown up among holders of contracts coded as small business. SBA is concerned about this as well.

This issue hit my radar screen early. In fact, on the day the Vice President swore me in, a friend asked whether the ceremony was on the news. I answered, "Yes it was. It provided the lead footage to a national news story on big business inappropriately getting small business contracts." Welcome to the public arena.

First, let me just state that if there is any illegal activity in this area it is totally unacceptable and needs to be dealt with. However, several things are also happening here which need to be understood.

One is that small companies that secure long-term contracts are profiting by those contracts, as is the intention, and because of that success, they are growing into large businesses. In addition, some small companies with long-term federal contracts are being acquired by large companies.

Federal rules up to now have allowed agencies to continue recording such arrangements as small business contracts for the life of the contract, and so, large companies show up in the data as the contract holders. They are not getting new small business contracts, but they are getting credit for past ones.

That's why SBA has implemented new rules to change the scoring – to better ensure companies receiving small business contracts are, in fact, "small." SBA recently enacted a first-of-its-kind regulation to require businesses to recertify their size as genuinely small after the fifth year of a contract and immediately when a company changes ownership.

This new rule will make federal contract reporting more relevant and, more importantly, increase opportunities for small business by encouraging federal contracting officers to expand their search for qualified small business contractors.

We also know there are coding errors among the millions of entries in the federal procurement data base. To improve transparency and accuracy in contracting, SBA and the Office of Management and Budget have jointly asked all federal agencies to ensure that data is accurate by reviewing all 2005 and 2006 small business contracting information, and we plan to make it available in a useful format in coming months.

This year SBA will implement and publicize – also in conjunction with OMB – a small business report card which will score the federal agencies on their progress toward reaching government small business goals.

Finally, part of the challenge is the magnitude of contracting officers' job in the federal government. SBA is putting tools and technologies in place to improve their ability to identify qualified small businesses, increasing the number of SBA procurement representatives in the field to assist them, and continuing to host agencies and small businesses in matchmaking sessions.

So, by tightening the rules, insisting on clean data and making it public, putting performance measures in place and making them public, and supporting operational and informational needs of both small businesses and government procurement officers, we believe we will make good progress in government contracting.

The agency and the partners it funds provide education to entrepreneurs, to help them handle the huge burdens that come with starting and running a business.

Last year, the agency gave business counseling and technical assistance to about 1.5 million entrepreneurs, and SBA's web site (www.sba.gov) recorded more than 26 million visits.

We partner with Small Business Development Centers, Women's Business Centers, and SCORE to make 14,000 counselors available to small business owners or those trying to start a business. We also have courses online through our Small Business Training Network.

These resources provide an invaluable service and are often the gateway to other SBA offerings, and we are leveraging this network to support the needs of our borrowers and contractors.

While we are here to help small businesses wherever they may be, there are sectors where SBA can have a particularly profound impact. One is in areas with higher unemployment and lower income levels—primarily inner city and certain rural areas. These areas desperately need to see jobs created, economic activity, and investment.

This focus is a natural extension of the progress we've made in our programs serving 8(a) and other socially and economically disadvantaged businesses and HUBZone businesses. It also reflects the value that ownership provides, about which the President speaks so passionately and aptly.

When you think about the spectrum of services SBA provides and its partnerships, it is clear the agency is in a prime position to drive successful, sustainable, business formation in these underserved markets which can change the game for many Americans.

We are looking to adapt our outreach, our products, and our partnerships to become more effective in these markets.

The President has often said that the role of government is to create and sustain an environment which allows small businesses to flourish and grow, and in his State of the Union Message last month he identified a number of areas where entrepreneurs can cut costs -- health care, taxes, and trade being among them.

He said healthcare coverage must be affordable, accessible, and flexible, and the President has renewed his call that basic, private health insurance be made available and affordable for more Americans.

Under the president's proposal, families with health insurance will not pay income or payroll taxes on the first \$15,000 in compensation and singles will not pay income or payroll taxes on the first \$7,500. At the same time, health insurance would be considered taxable income. This is a change for those who now have health insurance through their jobs.

The President's proposal will result in lower taxes for about 80 percent of employer-provided policies. Those with more generous policies (20 percent) will have the option to adjust their compensation to have lower premiums and higher wages to offset the tax change. More than 100 million Americans who now get health insurance through their job will see their tax bills go down, and their health insurance will therefore be more affordable.

On taxes, the President has led by cutting taxes significantly, especially on capital – that is, on investment. These cuts incentivize more saving and investment across the economy; that enhances worker productivity which translates over time to higher salaries for workers at all levels. In my opinion, freeing up the dollar on the margin for investment by reducing taxes on capital is the *single greatest advantage* government can give small business. Big companies will always have access to capital – it's the little guy who goes without when investment declines.

On a related note, it may not be fashionable currently, but I want to stand up for opening new markets for trade. Trade enables producers of goods and services to move beyond the U.S. market of 300 million people to the world market of 6.2 billion. More than 95 percent of the world's population and two-thirds of the world's purchasing power is located outside of the United States, and more than 25 percent of our economy's growth comes from trade. Well over 200,000 small businesses are selling more than \$300 billion per year of goods and services in foreign markets, and since 2001, SBA's loans to exporters have increased 500 percent.

Any how, I'll stop there. Thanks again for having me. I'll take some questions.

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